

State of Utah

Comprehensive Annual Financial Report

2008



For the Fiscal Year Ended **June 30, 2008**

State Of Utah

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For The Fiscal Year Ended June 30, 2008

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Gary R. Herbert Lt. Governor
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Edward T. Alter, CPA State Treasurer
Mark L. Shurtleff Attorney General
John L. Valentine President of the Senate
Greg J. Curtis Speaker of the House
Christine M. Durham Chief Justice, Supreme Court

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John C. Reidhead, CPA Director, Division of Finance
John E. Nixon, CPA Director, Governor's Office of Planning and Budget
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ACKNOWLEDGMENTS

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Special appreciation is given to all of the budget and accounting officers throughout the State whose extra time and effort made this report possible.



Department of Administrative Services: Division of Finance Accounting Standards and Financial Reporting Section

State of Utah
COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2008

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State of Utah

JON M. HUNTSMAN, JR.
Governor

GARY R. HERBERT
Lieutenant Governor

Department of Administrative Services

Kimberly K. Hood
Executive Director

Division of Finance

John C. Reidhead, CPA
Director

December 4, 2008

To the Citizens, Governor,
and Members of the Legislature
of the State of Utah:

It is our pleasure to present the 2008 Comprehensive Annual Financial Report of the State of Utah in accordance with Section 63A-3-204 of the *Utah Code*. Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the State's management. To the best of our knowledge and belief, the enclosed data accurately presents the State's financial position and results of operations in all material respects in accordance with generally accepted accounting principles (GAAP). We believe that all disclosures necessary to enable the reader to gain an understanding of the State's financial activities are included.

Internal Control. The State's systems of internal control over assets recorded in the accounting system have been designed to provide reasonable, but not absolute, assurance of safeguarding assets against loss from unauthorized use or disposition and to ensure the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the evaluation of costs and benefits requires estimates and judgments by management.

Independent Auditors. In compliance with state statute, an annual financial audit of the "State Entity" is completed each year by the Office of the Utah State Auditor in conjunction with other independent audit firms. Their audits were conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The State Auditor's report on the Basic Financial Statements is included in the Financial Section of this report.

Federal regulations also require the State to undergo an annual "Single Audit" in conformance with the Federal Single Audit Act of 1984, as amended, and the U.S. Office of Management and Budget Circular A-133, *Audits of State and Local Governments and Non-Profit Organizations*. Information related to the Single Audit, including the schedule of expenditures of federal awards, audit findings and recommendations, summary of prior audit findings, and the State Auditor's report, is issued in a separate report and will be available at a later date.

Management's Discussion and Analysis (MD&A). The discussion and analysis beginning on page 14 provides an overview and analysis of the State's Basic Financial Statements. This letter of transmittal is intended to complement the MD&A and should be read in conjunction with it.

PROFILE OF THE GOVERNMENT

Structure. As shown in the organizational chart on page 10, state government is divided into three separate branches: legislative, executive, and judicial. The duties of each branch are outlined in the *Constitution of Utah*, which can be amended only by a majority vote of the State's citizens, and in the *Utah Code*, which can be amended by the Legislature or by citizen initiatives. State government services provided to citizens include building and maintaining roads; providing public safety,



health, and environmental protection services to protect the general welfare of the State's citizens; helping adults, children, and families through difficult times such as abuse, divorce, illness, death, and unemployment; fostering an attractive business climate to encourage economic growth; and protecting public lands and natural resources for conservation and recreational activities. The State also provides significant financial support to its higher education institutions, local governments, and school districts to help those entities meet the specific needs of their constituents.

This report includes all funds of the State of Utah and includes all departments, agencies, and other organizational units governed by the Legislature and/or the constitutional officers of the State. In addition to these *primary government* activities, this report includes information related to component units that are financially accountable to the State. Although such information is provided in this report, the MD&A and Basic Financial Statements focus on the primary government and its activities. Separately issued financial statements are available from the significant discretely presented component units and should be read to obtain a better understanding of their financial conditions. Additional information on all discretely presented components units can be found in the notes to the financial statements (see Note 1. A.).

Budgetary Control. The *Constitution of Utah* requires that budgeted expenditures not exceed estimated revenues and other sources of funding, including beginning fund balances. Annually, the Governor is required to submit a balanced budget by fund, function (e.g., health), and activity (e.g., medical assistance) to the Legislature. The Legislature authorizes expenditures in the annual *Appropriations Acts*. The Acts also identify the sources of funding for budgeted expenditures. In the event actual revenues are insufficient to cover budgeted expenditures, the Governor must order budget reductions or call a special session of the Legislature to address budget issues. Adjustments to the budget may also be made throughout the year for changes in departmental or fund revenues so that departments and funds will not end the fiscal year in a deficit position. For additional information on budgetary control see the notes to Required Supplementary Information on page 120.

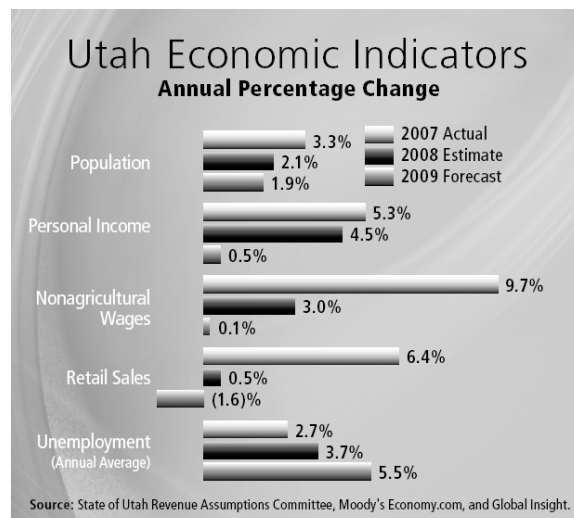
Budget Stabilization. In accordance with Sections 63J-1-202 and 203 of the *Utah Code*, the State maintains the General Fund Budget Reserve Account in the General Fund (the "Rainy Day Fund") and an Education Fund Budget Reserve Account in the Education Fund (the "Education Reserve"). State law requires 25 percent of any revenue surplus in the General Fund to be deposited in the Rainy Day Fund and 25 percent of any revenue surplus in the Education Fund to be deposited in the Education Reserve, in each case up to a statutory limit. State law limits the totals of the Rainy Day Fund and Education Reserve based on the amount of appropriations from the General Fund and Education Fund, respectively, for the fiscal year in which the surplus occurred. In addition to the Rainy Day Fund and Education Reserve, the Legislature created the Disaster Recovery Restricted Account to fund costs to the State directly related to a declared disaster. According to Section 63J-1-204 of the *Utah Code*, this fund receives 25 percent of the revenue surplus in the General Fund, after the transfer to the Rainy Day Fund has been made.

Spending Limitation. The State has an appropriation limitation statute that limits the growth in the combined appropriations from the General Fund and from income tax revenues for higher education to the relative growth in population and inflation. For the fiscal year ended June 30, 2008, the State was \$33.5 million below the appropriations limitation.

ECONOMIC CONDITIONS AND OUTLOOK

Economy. Nationally, corporate before-tax profits increased slightly by 0.7 percent in 2007 and are expected to decrease 13.9 percent through the end of 2008 as the economy continues to decline. The national unemployment rate was 4.6 percent in 2007, and is expected to increase to 5.7 percent in 2008, and 7.7 percent in 2009. Utah's economic indicators were strong throughout 2007, strong initially in 2008, but are expected to weaken substantially through the end of 2008 as national trends weigh upon the local economy.

Utah's unemployment rate is expected to increase from 2.7 percent in 2007, the ten year low, to 3.7 percent in 2008, primarily due to contraction of the construction industry. In 2007, personal income and nonagricultural wages rose by 5.3 percent and 9.7 percent, respectively. In 2008, personal income is expected to increase 4.5 percent and nonagricultural wages by 3.0 percent. Retail sales grew by 6.4 percent in 2007, are expected to grow by 0.5 percent in 2008, but decline (1.6) percent in 2009. In 2007, total construction value was \$7 billion, a decrease from the 2006 record high of \$7.4 billion. Construction valuation is expected to decline further to \$4.9 billion



in 2008. The decline is due to a sharp drop in residential construction, ending a boom that began in 2003. Residential construction is expected to decline from \$4 billion in 2007 to \$2.1 billion in 2008, as negative factors surrounding the national credit and mortgage markets translate to the slowest new-home building market in Utah in almost 30 years. Nonresidential construction is expected to remain strong in 2008, with several large projects planned, but may weaken if the credit markets and corporate profits do not improve. Despite the slowdown, Utah continues to grow through positive net migration of approximately 44,000 people in 2007 and 17,000 people in 2008. Utah has had positive net migration for the past 18 years and this trend is expected to continue in the coming years.

Industries. Utah's nonagricultural employment growth is expected to decrease to 0.1 percent in 2008, which is the lowest level in five years. From October 2007 to October 2008, some industries experienced job declines, while others experienced slight growth. These results are presented in the following table.

State of Utah
Jobs by Industry of Utah's Labor Force
(Expressed in Thousands)

	Number of Jobs		Numerical Change	Percentage Change	Components of Labor Force
	2008 (est.)	2007	2007 to 2008	2007 to 2008	2008 (est.)
Trade, Transportation, and Utilities	251.4	247.9	3.5	1.4 %	19.9 %
Professional and Business	164.9	164.2	0.7	0.4 %	13.1 %
Education and Health Services	149.6	143.8	5.8	4.0 %	11.8 %
Government (Local/Federal)	149.0	146.0	3.0	2.1 %	11.8 %
Manufacturing	126.6	128.4	(1.8)	(1.4)%	10.0 %
Leisure and Hospitality	111.8	110.0	1.8	1.6 %	8.9 %
Construction	91.7	105.1	(13.4)	(12.7)%	7.3 %
Financial Activities	73.5	74.7	(1.2)	(1.6)%	5.8 %
Government (State)	65.1	65.0	0.1	0.2 %	5.1 %
Other Services	35.3	35.6	(0.3)	(0.8)%	2.8 %
Information	31.8	32.4	(0.6)	(1.9)%	2.5 %
Natural Resources and Mining	12.2	11.3	0.9	8.0 %	1.0 %
Total	1,262.9	1,264.4			100.0 %

Source: Utah Department of Workforce Services, October 2008 Jobs by Industry and Components of Labor Force

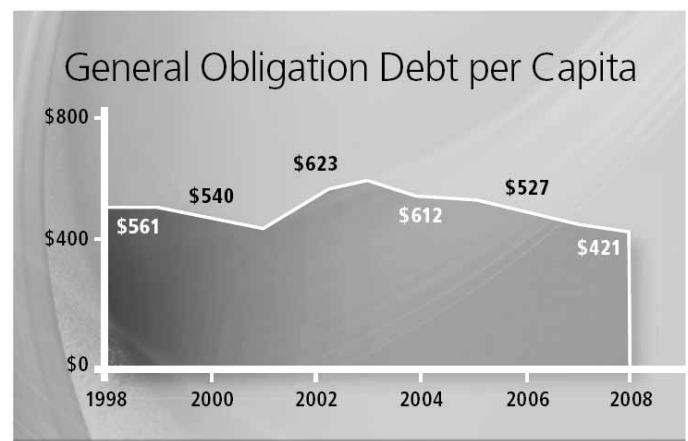
Several industries that performed well in the past year are vulnerable to future decline as consumer demand in a slowing economy diminishes the need for goods and services. These vulnerable industries include the trade, professional and business services, and leisure and hospitality industries. The construction and finance industries are expected to continue to decline until there is improvement in the overall national economy. Given these factors, Utah is entering a contracting employment environment, in which net job losses are anticipated over the course of next year.

Outlook. As the national economy struggles, Utah will experience much slower or very minimal economic growth. Employment is expected to contract in the state, with the construction and financial industries bearing much of the loss. Weakening global demand for U.S. exports is likely to curb manufacturing employment. Health care, education, and governmental services will face additional pressure to provide services. The growth of the energy sector may slow due to recent declines in the price of oil, natural gas, and most commodities. Taxable retail sales are likely to slow significantly due to the current uncertainty in the credit markets. However, the state appears to be in a better position to handle the current economic downturn than most states.

LONG-TERM FINANCIAL PLANNING

Debt Administration. Total general obligation debt remained fairly stable from 1999 through 2001. In fiscal years 2002 through 2003, under budget constraints coupled with a low interest rate environment, the State elected to increase its debt by issuing more bonds for highway and building projects that otherwise would have been funded from current revenues. During fiscal year 2004, the State advance refunded \$316.9 million of general obligation bonds to take advantage of continued low interest rates, but did not issue any other general obligation bonds. During fiscal year 2005, the State issued \$140.6 million of general obligation bonds for highway and capital facilities construction. The State issued no new general obligation bonds during fiscal years 2006 and 2007, but provided funding for building and transportation projects under a

“Pay-As-You-Go” plan, using one-time and ongoing money. During the 2007 and 2008 General Sessions, the Legislature authorized a total of \$1.3 billion in general obligation bonds for highway projects to address critical needs and in anticipation of future growth, spurred by the Governor’s economic development initiatives. During the 2008 General Session, the Legislature also provided general obligation bonding authority of \$43.75 million for buildings, and \$42.5 million for the St. George Airport. In early fiscal year 2008, the State issued \$75 million in general obligation bonds for highway and capital facility construction. More information about the State’s long-term debt is found in Note 10 to the Basic Financial Statements.



MAJOR INITIATIVES

During the 2008 General Session, estimated new state revenues available for fiscal year 2009 appropriation exceeded \$778 million, which included \$354 million of ongoing revenue and \$424 million of one-time revenue. For budget stabilization, the Legislature appropriated \$16.2 million of General Fund monies to the General Fund Budget Reserve Account and \$44.2 million of Education Fund monies to the Education Fund Budget Reserve Account. As the economy slowed, revenue estimates were revised downward as sales and other taxes available for fiscal year 2009 were estimated to be \$272.4 million less than anticipated. In September 2008, the 2008 Second Special Session of the Legislature was called by the Governor to address the fiscal year 2009 revenue shortfalls. During the Second Special Session, the Legislature reduced most fiscal year 2009 agency budgets by three percent, and made other budget adjustments as necessary to balance the budget. Even in this challenging environment, the following major initiatives were undertaken by the State:

Education. State funding for education was again a major priority for the Governor and Legislature during the 2008 General Session. Public education funding was increased by \$234 million for fiscal year 2009, representing a 9.8 percent increase over the base budget. The State provided a \$59 million increase in ongoing money for fiscal year 2009 through a 2.5 percent increase in the value of the Weighted Pupil Unit. The increase will fund teacher salaries and benefits, and pay for increased operating costs. The Legislature also appropriated \$77.1 million in ongoing money for fiscal year 2009 to provide a \$1,700 increase to each teacher’s base pay, in addition to a \$2,500 increase provided in the 2007 General session. To attract and retain teachers, legislators appropriated \$6.9 million in ongoing funds to supplement teacher salaries through the Utah Science Technology and Research (USTAR) Program. They also authorized the use of \$25 million in nonlapsing funds for one-time bonuses to new educators and one-time performance-based compensation for qualifying educators. New student enrollment of 12,880 students will be funded with \$55.6 million in ongoing money in fiscal year 2009.

Although the 2008 Second Special Session of the Legislature cut public education’s fiscal year 2009 budget by three percent, the money was restored with one-time money. As a result, public education was essentially held harmless from the early budget cuts in fiscal year 2009.

Infrastructure. Continuing its conservative approach to fiscal management, legislators protected against revenue fluctuations and avoided additional general obligation debt for buildings by using one-time money for several building projects. During the 2008 General Session, legislators appropriated \$129.2 million in one-time money and \$30 million in ongoing money for fiscal year 2009 for new capital development projects, including the Gunnison prison expansion, a Salt Lake area government office building, and a veterans’ nursing home. During the 2008 Second Special Session, the increase in ongoing money for capital development was reduced by \$30 million and ongoing money for capital improvements was reduced \$15 million to conform to updated revenue estimates.

The Legislature again addressed the State’s transportation needs during the 2008 General Session. Senate Bill 283, *Transportation Funding Amendments*, increased the bonding authority in the Critical Highway Needs Fund by \$200 million. This is in addition to the \$1.1 billion of general obligation bonds authorized for transportation projects during the 2007 General Session. The increase will be used to fund additional projects aimed at reducing congestion on Utah roads. For fiscal year 2009, the Legislature also passed House Bill 359, *Tax Changes*, which imposes a 0.05 percent increase in the sales tax. The additional revenue from the increase will be dedicated to transportation needs, and is estimated to provide an additional \$10.7 million for fiscal year 2009.

During the Second Special Session of the 2008 Legislature, the Legislature passed House Bill 2005, *Transportation Finance Amendments*, in response to declining sales and use tax revenue. This bill reduced the sales and use tax revenue directed to the Critical Highway Needs Fund during the 2007 General Session (House Bill 314, *Transportation Funding Revisions*) from \$90 million to \$55 million, for fiscal year 2009 only.

Health System Reform. Several key bills passed in the 2008 General Session to reform the State's health care system. House Bill 133, *Health System Reform*, provided the following: 1) allows an individual health insurance policy holder to be eligible for Utah's Premium Partnership Program; 2) directs the Insurance Department to develop standards for health insurance applications and to facilitate a private sector method of collecting premium payments made by multiple payers, including the policyholder, one or more employers of the covered individuals, and government programs; 3) designates the Governor's Office of Economic Development as the coordinating entity for the reform efforts; and 4) establishes the Health System Reform Legislative Task force to develop and implement the State's plan. House Bill 364, *Promotion of Health Care Coverage*, appropriated monies for fiscal year 2009 to promote health insurance awareness. House Bill 16, *Medicaid Coverage for Certain Telehealth Services*, expands Medicaid coverage to include particular telemedicine services. House Bill 326, *Children's Health Insurance – Open Enrollment*, removes the enrollment cap from the Children's Health Insurance Program (CHIP). Enrollment in the CHIP program has been limited by Legislative appropriation. With passage of this bill, a child that meets all CHIP eligibility criteria may not be denied coverage due to funding shortfalls.

Other Postemployment Benefit Plans and Employee Compensation. The Legislature appropriated \$53.5 million in both fiscal years 2008 and 2009, which represents a level of funding that, if paid on an ongoing basis, is actuarially projected to fund the postemployment benefits over a period of twenty-five years. The Legislature also appropriated funds for a 3 percent cost-of-living adjustment (COLA) for state employees, and an additional 2 percent COLA was provided by changes to certain employee health insurance plans that allowed the savings to be passed along to employees.

AWARDS AND ACKNOWLEDGEMENTS

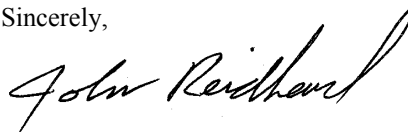
The Government Finance Officers Association (GFOA) awarded the *Certificate of Achievement for Excellence in Financial Reporting* to the State of Utah for its comprehensive annual financial report for the fiscal year ended June 30, 2007. This was the twenty-third consecutive year the State has achieved this prestigious award.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to GFOA to determine its eligibility for another certificate. We are committed to this effort, and we intend to maintain a highly qualified and professional staff to make this certification possible.

The preparation of this report would not have been possible without the efficient and dedicated service of the entire staff of the Division of Finance, Department of Administrative Services. We also express our appreciation to the budget and accounting officers throughout state government and to the Office of the Utah State Auditor for their dedicated efforts in assisting us in the preparation of this report.

Sincerely,



John C. Reidhead, CPA
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Utah

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

STATE OF UTAH Organization Chart

